

# **Net Operating Losses for Individuals, Estates, and Trusts**

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Use this publication in preparing your 2005 tax return. There are no substantive changes since the last version.

## I. INTRODUCTION

If your trade or business deductions for the year are more than your income for the year, you may have a Wisconsin net operating loss (NOL). This publication discusses the Wisconsin NOL for individuals, estates, and trusts.

You should compute your federal NOL before computing your Wisconsin NOL, because computation of the Wisconsin NOL is based on the federal NOL. For information on computing the federal NOL, obtain federal Publication 536, *Net Operating Losses*, and Form 1045, *Application for Tentative Refund*, from the Internal Revenue Service.

### CAUTION

The information in this publication reflects interpretations by the Wisconsin Department of Revenue of laws enacted by the Wisconsin Legislature as of November 1, 2005. Laws enacted after this date, administrative rules, and court decisions may change the interpretations in this publication.

## II. DEFINITIONS

Throughout this publication, the following definitions will apply:

- “NOL” means net operating loss.
- “Federal NOL” is your federal net operating loss as computed under the federal Internal Revenue Code in effect for Wisconsin tax purposes.

For example, the Wisconsin definition of the Internal Revenue Code does not include the federal provision allowing an exclusion for 50% of the gain from the sale or exchange of qualified small business stock. A taxpayer who was allowed an exclusion for 50% of the gain from the sale or exchange of qualified small business stock on a 2005 federal return was required to file Wisconsin Schedule I to include in income the entire gain on the sale or exchange of the qualified small business stock. The Schedule I adjustment is

considered when computing the “federal NOL” for Wisconsin.

In addition, the Internal Revenue Code permits an individual to make certain elections regarding the federal tax treatment of certain items. If you decide to make one election for federal purposes and a different election for Wisconsin purposes, the “federal NOL” means the federal NOL based on a federal return using the election chosen for Wisconsin tax purposes.

- “Loss year” means the year in which the NOL occurred.

## III. DO YOU HAVE A FEDERAL NOL?

You must have a federal NOL in order to have a Wisconsin NOL. The federal NOL is the starting point for computing the Wisconsin NOL. Although Wisconsin law provides that the federal NOL is adjusted for certain addition and subtraction modifications, the modifications operate to increase or decrease the amount of NOL available for Wisconsin purposes. Modifications may not be used to create a Wisconsin NOL where no federal NOL exists.

A federal NOL, although not computed on the federal income tax return filed with the Internal Revenue Service, may result for Wisconsin purposes if the taxpayer is a part-year resident or nonresident of Wisconsin and a portion of federal adjusted gross income does not have situs in Wisconsin (that is, Wisconsin does not have jurisdiction to tax such income).

*Example:* Taxpayer is a nonresident of Wisconsin. Taxpayer’s federal adjusted gross income is as follows:

Wages (for services performed outside Wisconsin)	\$50,000
Interest income	10,000
Partnership income (loss)	<u>(5,000)</u>
Federal adjusted gross income	\$55,000

The only income having a Wisconsin situs is the partnership income (loss) which is from a Wisconsin partnership of which the taxpayer is a general partner. The partnership income (loss) is from a business located in Wisconsin. Therefore, the taxpayer’s Wisconsin adjusted gross income is the partnership loss of \$5,000. If the taxpayer computes federal adjusted gross income based on those income and deduction items which have a Wisconsin situs, the taxpayer has a federal NOL of \$5,000. Because the taxpayer has a “federal NOL,” the taxpayer is entitled to compute a Wisconsin NOL.

**Exception:** If a tax-option (S) corporation shareholder's allowable deduction for his or her pro rata share of the corporation's losses results in a loss on the shareholder's Wisconsin income tax return, the loss generally will be treated in the same manner as other Wisconsin net operating losses. However, unlike other Wisconsin net operating losses, Wisconsin tax-option (S) corporation losses may be claimed even if the shareholder has no federal net operating loss.

#### IV. HOW TO COMPUTE THE WISCONSIN NOL FOR THE LOSS YEAR

The Wisconsin NOL is the federal NOL with the following adjustments:

##### Adjustments —

- Itemized deductions allowable on federal Schedule A cannot be used in computing the Wisconsin NOL. Wisconsin law, however, does not prohibit the use of the federal standard deduction. Therefore, your allowable federal standard deduction may be used in computing the Wisconsin NOL. This is true even though you did not claim the standard deduction on your federal return.
- With the exception of the 60% capital gain exclusion, the federal NOL is adjusted for the various addition and subtraction modifications provided by Wisconsin law. For example, the federal NOL is adjusted to account for the addition modification for interest from state and municipal bonds and for the subtraction modification for interest from United States Government securities. See page 6 of the Appendix for a listing of the various addition and subtraction modifications which may affect your 2005 Wisconsin NOL.

If either of these adjustments applies to you, complete Worksheet 1 on page 7 in the Appendix to determine your Wisconsin NOL.

If you claimed the federal standard deduction on your federal return (line 40 of 2005 Form 1040) and your federal adjusted gross income (line 37 of 2005 Form 1040) is the same as your Wisconsin income (line 13 of 2005 Form 1), you do not need to make a separate NOL computation for Wisconsin. In this situation your federal NOL is also your Wisconsin NOL, and therefore, it is not necessary to complete Worksheet 1.

#### V. WHEN TO USE A WISCONSIN NOL

A Wisconsin NOL can be carried forward and offset against Wisconsin taxable income for up to 15 years. A Wisconsin NOL cannot be carried back to prior taxable years.

An NOL is carried to the first tax year after the loss year. If you do not use it up, carry over the unused part to the next year. Continue to carry over any unused part of the NOL until you complete the 15-year carryforward period. Any unused NOL remaining after the 15-year carryforward period cannot be deducted.

*Example:* You started your business in 2001 and had a \$42,000 Wisconsin NOL for the year. You begin using your Wisconsin NOL in 2002. You use your Wisconsin NOL as shown in the following chart.

Year	Amount of NOL Used	Unused Loss
2002	\$2,000	\$40,000
2003	3,000	37,000
2004	5,500	31,500
2005	9,000	22,500
2006	9,800	12,700
2007	8,700	4,000
2008	4,000	- 0 -

#### VI. HOW TO COMPUTE YOUR WISCONSIN NOL CARRYFORWARD TO 2005

If you computed a Wisconsin NOL for 2004, you may carry the entire NOL (line 25 of Worksheet 1 computed for 2004) forward to 2005.

If you computed a Wisconsin NOL for a year prior to 2004 (but not before 1990), the amount carried forward to 2005 is the Wisconsin NOL computed for the year of the loss less the amount used in any year between the loss year and 2005. The amount used each year is equal to your "Wisconsin modified taxable income." (See "Wisconsin Modified Taxable Income" on page 3.)

*Example:* You computed a Wisconsin NOL for 2002 of \$20,000. Your Wisconsin modified taxable income was \$6,000 for 2003 and \$9,000 for 2004. The amount of Wisconsin NOL carried forward to 2005 is \$5,000 (\$20,000 less \$15,000). If you have a Wisconsin NOL carryforward from more than one year, the amount of your carryforward to 2005 is the total of all carryforwards. The NOLs are

used in the order in which they occurred, starting with the earliest.

### Wisconsin Modified Taxable Income

Your Wisconsin modified taxable income is your Wisconsin income (for example, line 13 of 2005 Form 1) with the following adjustments:

- (1) You cannot claim an NOL deduction.
- (2) You cannot claim a capital gain exclusion.
- (3) You cannot claim a deduction for a net capital loss.
- (4) Wisconsin modified taxable income cannot be less than zero.

Use Worksheet 2 on page 9 in the Appendix to compute your Wisconsin modified taxable income.

You must keep accurate records to show (1) the amount of Wisconsin NOL for each loss year, (2) the amount of Wisconsin NOL used in each year to which it can be carried forward, and (3) the amount of Wisconsin NOL remaining to be carried forward to future years. See Worksheet 3 on page 10 of the Appendix. Worksheet 3 provides a record of this information.

### Special Situations

**Reduction of NOL when debt is cancelled.** For federal tax purposes, if you exclude cancelled debt from income because it is cancelled in a bankruptcy case or during insolvency, or because the debt that is cancelled is qualified farm debt or qualified real property business debt, you must use the excluded amount to reduce certain of your tax attributes. One of the tax attributes that may have to be reduced is your federal NOL.

Wisconsin also requires the reduction of tax attributes when cancelled debt is excluded from income. Reduce any Wisconsin NOL for the tax year in which the debt cancellation takes place, or any Wisconsin NOL carryforward to that tax year.

For further information on this subject, obtain federal Publication 908, *Bankruptcy Tax Guide*, from the Internal Revenue Service.

**Pre-1991 losses from a limited partnership.** Nonresidents may not carry forward and deduct their pre-1991 limited partnership losses for Wisconsin if they were a nonresident of Wisconsin when the losses were incurred.

**Carryforward of NOL incurred while a nonresident.** An NOL incurred while a nonresident of Wisconsin cannot be used to offset Wisconsin taxable income unless the NOL is attributable to Wisconsin business income and expenses.

## VII. HOW TO REPORT A WISCONSIN NOL DEDUCTION

Once you have determined the amount of your Wisconsin NOL carryforward to 2005 (see Part VI), the next step is to determine the amount that may be deducted on your 2005 Wisconsin tax return. The deduction for a Wisconsin NOL carryforward may not be more than your Wisconsin taxable income as computed before any deduction for the NOL carryforward.

Use Worksheet 4 on page 12 of the Appendix to compute the amount of NOL carryforward that you can deduct on your 2005 Wisconsin income tax return (Form 1). See the instructions for the worksheet if you file Form 1NPR or if the taxpayer is an estate or trust.

**Caution:** It is important to complete Worksheet 4 to compute your allowable deduction for a Wisconsin NOL carryforward. Other items on your return may be affected if you claim more or less NOL carryforward than allowable. For example, Wisconsin income is the starting point for computing household income for farmland preservation credit. If you claim an incorrect amount of NOL, this will mean that your household income for farmland preservation credit will also be incorrect.

Attach copies of your Wisconsin NOL worksheets (see Worksheets 1 through 4 in the Appendix) to your tax return for each year following the loss year until your NOL is completely used or can no longer be carried forward.

If you did not complete Worksheet 1 to compute your Wisconsin NOL because your Wisconsin NOL is the same as your federal NOL, attach a statement showing how you computed your federal NOL (for example, a copy of Schedule A of federal Form 1045 can be used for this purpose).

## VIII. CHANGES IN MARITAL AND FILING STATUS

Certain rules apply when your marital status or filing status is different in a loss year and a carryforward year. If you and your spouse are filing a joint return, the Wisconsin NOL carryforward of both you and your spouse may

be used to compute the deduction for 2005 if you and your spouse were married to each other in the year of the loss. A married person carrying forward a loss incurred before marriage may apply the loss only against his or her own income as computed under Wisconsin marital property law.

**Note:** For information on computing income under the Wisconsin marital property law, obtain Wisconsin Publication 109, *Tax Information for Married Persons Filing Separate Returns and Persons Divorced in 2005*, from any Department of Revenue office. You may also download this publication from the department's web site at [www.dor.state.wi.us](http://www.dor.state.wi.us).

If you and your spouse file separate returns for 2005, but filed a joint return for the loss year, compute each spouse's share of the joint Wisconsin NOL carryforward separately. For example, if a Wisconsin NOL which is computed for a year during which the spouses were married and filed a joint return is carried to a year after they are divorced, each spouse must compute his or her share of the joint Wisconsin NOL carryforward separately.

The chart on the bottom of this page summarizes when allocations of the Wisconsin NOL or income must be made.

To compute each spouse's share of a joint Wisconsin NOL, complete the following steps:

- 1) Compute each spouse's Wisconsin NOL for the loss year as if he or she filed a separate return.
- 2) If both spouses have a Wisconsin NOL, multiply the joint NOL by a fraction, the numerator of which is spouse A's NOL computed in step (1) and the denominator of which is the total of the spouses' NOLs computed in step (1). The result is spouse A's share of

the joint NOL. The remainder of the joint NOL is spouse B's share.

If a portion of the joint Wisconsin NOL was used in any intervening year between the loss year and the year to which it is being carried, you must also compute each spouse's share of the joint carryforward using the following steps:

- 1) Compute each spouse's Wisconsin modified taxable income as if he or she filed a separate return.
- 2) Multiply the joint Wisconsin modified taxable income you used to compute the joint carryforward by a fraction, the numerator of which is spouse A's modified taxable income computed in step (1) and the denominator of which is the total of the spouses' modified taxable incomes computed in step (1). This is spouse A's share of the joint Wisconsin modified taxable income.
- 3) Subtract the amount in step (2) from the joint Wisconsin modified taxable income. This is spouse B's share of the joint Wisconsin modified taxable income.
- 4) Reduce the amount computed in step (3), but not below zero, by spouse B's Wisconsin NOL deduction.
- 5) Add the amounts computed in steps (2) and (4).
- 6) Subtract the amount computed in step (5) from spouse A's Wisconsin NOL deduction. This is spouse A's share of the joint carryforward. The remainder of the joint carryforward is spouse B's share.

For further information and examples on how to compute each spouse's share of a joint NOL and joint modified taxable income, see "Change in Filing Status" in federal Publication 536, *Net Operating Losses*.

Status During Loss Year	Carryforward Is To Year In Which You Are:		
	Not Married	Married Filing Jointly	Married Filing Separately
Not Married (single or not married to the same spouse in loss year and carryforward year)	No allocation.	Spouse who incurred loss may apply NOL only against his/her income as computed under Wisconsin marital property law.	No allocation.
Married Filing Jointly	NOL allocated. Each spouse must figure his/her share of the joint NOL.	No allocation.	NOL allocated. Each spouse must figure his/her share of the joint NOL.
Married Filing Separate	No allocation.	No allocation.	No allocation.

## IX. HOW LONG MUST NOL RECORDS BE KEPT?

Keep records that support an NOL deduction appearing on a return until the statute of limitations for the return expires. The statute of limitations defines the period during which the department may issue assessments or refunds relating to a particular return. Generally, this is four years from the date the return was filed. This may increase to six years in cases where the taxpayers reported less than 75% of the income that should have been reported. Returns filed before the due date are treated as filed on the due date.

**Caution:** Taxable years which are otherwise closed to adjustment may be audited by the department to determine the correctness of an NOL which is claimed as an offset to Wisconsin income in a year which is still open to adjustment. The loss carryforward may be verified since the deduction is being claimed in a year which is open to adjustment. Therefore, records for an NOL loss year and carryforward years must be kept until four years after the filing date of the last return on which the NOL carryforward is claimed.

*Example:* You incurred a Wisconsin NOL of \$100,000 on your 1991 Wisconsin income tax return. You used the NOL carryforward to offset income on your 1992 through 2003 Wisconsin income tax returns. Your 2003 Wisconsin return was filed April 15, 2004. You must keep your tax records for the 1991 through 2003 returns until April 15, 2008 (four years after the filing date of the last return on which the NOL carryforward was claimed).

## X. ADDITIONAL INFORMATION

If you have questions about NOLs, write to the department in Madison or call or visit any department office.

WRITE . . . Wisconsin Department of Revenue  
Mail Stop 5-77  
P.O. Box 8949  
Madison, WI 53708-8949

or CALL OR STOP IN . . .

Offices Providing Daily Assistance (Monday-Friday)

Location	Address	Telephone No.
Appleton	265 W. Northland Ave.	(920) 832-2727
Eau Claire	718 W. Clairemont Ave.	(715) 836-2811

Green Bay	200 N. Jefferson St.	(920) 448-5179
Kenosha	4911 88th Ave. Ste. B	(262) 653-7088
Madison	2135 Rimrock Rd.	(608) 266-2772
		TTY (608) 267-1049
Milwaukee	819 N. Sixth St., Rm. 408	(414) 227-4000
		TTY (414) 227-4147
Waukesha	141 N.W. Barstow St.	(262) 521-5310

The offices providing assistance daily are open 7:45 a.m. to 4:30 p.m.

Offices Providing Assistance on Mondays Only

Location	Address	Telephone No.
Baraboo	1000 Log Lodge Ct.	(608) 356-3472
Beaver Dam	220 Seippel Blvd.	(920) 356-6090
Elkhorn	715 W. Walworth St.	(262) 723-4098
Fond du Lac	845 S. Main St.	(920) 929-3985
Grafton	1930 Wisconsin Ave	(262) 375-7948
Hayward	100 Ranch Road	(715) 634-8478
Hudson	2100 O'Neil Rd.	(715) 381-5060
Janesville*	2524 Morse St.	(608) 758-6190
La Crosse*	620 Main St.	(608) 785-9720
Lancaster	130 W. Elm St.	(608) 723-2641
Marinette	1926 Hall Ave.	(715) 732-7565
Oshkosh	515 S. Washburn	(920) 424-2100
Rhineland	203 Schiek Plaza	(715) 365-2666
Sheboygan	807 Center Ave.	(920) 459-3101
Superior	1225 Tower Ave.	(715) 392-7985
Tomah	203 E. Clifton St.	(608) 372-3256
Wausau	710 Third St.	(715) 842-8665
Wisconsin Rapids	1681 2nd Ave. S.	(715) 421-0500

\*Open Monday, Tuesday, and Wednesday

You may also obtain forms and publications and submit questions through our Internet web site at: [www.dor.state.wi.us](http://www.dor.state.wi.us).

## APPENDIX

### Modifications —

The addition and subtraction modifications which affect the computation of the 2005 Wisconsin NOL include the following.

#### Additions

- State and municipal bond interest
- Farm loss limitations
- Federal net operating loss carryover
- Lump-sum distribution reported on federal Form 4972
- Farmland preservation credit not reported on the federal return
- Farmland tax relief credit not reported on the federal return
- Amount of computed development zones credit, manufacturer's sales tax credit, technology zone credit, and dairy investment credit
- Losses not allocable or apportionable to Wisconsin
- Gain on the sale of any property by a trust within two years of acquisition
- Wages paid to an entertainer or entertainment corporation unless the taxpayer complies with the withholding or surety bond requirements
- Adjustments required by nonresidents and part-year residents
- Excess distributions from passive foreign investment companies

#### Subtractions

- Capital gain exclusion
- United States Government interest and dividends
- State income tax refund
- Unemployment compensation
- Disability income exclusion
- Medical care insurance deduction
- Certain retirement benefits
- Amounts received from the U.S. Railroad Retirement Board
- Gain on the sale of small business stock
- Net income not allocated or apportioned to Wisconsin
- Recoveries of federal itemized deductions
- Other amounts not taxable by Wisconsin (for example, relocation assistance received by certain persons displaced by condemnation)
- Farm loss carryover

- State legislature allowance for expenses
- Recapture of development zones investment credits
- Social security benefits
- Adoption expenses
- Long-term care insurance
- Gain on disposition of business and farming assets to a related person
- Tuition expense
- Repayment of income previously taxed
- Contributions to Wisconsin college savings program
- Organ donation expenses
- Income of members of the Reserves and National Guard called to active duty

#### Additions or Subtractions

- Tax-option (S) corporation adjustments
- Partnership, trust, or estate adjustments
- Differences in depreciation or gain or loss on sale or other disposition of property acquired after December 31, 1964, where the federal basis is greater or less than the Wisconsin basis
- Differences in gain or loss on sale or other disposition of property which may not be depreciated or amortized and where the federal basis is greater or less than the Wisconsin basis
- Differences resulting from sale of partnership interest where increases or decreases were made to the federal basis of the partnership interest in taxable years prior to 1975, which resulted from partnership business or property located outside Wisconsin
- Differences in federal and Wisconsin reporting of marital property (community) income
- Amount recognized as a gain or loss if a surviving spouse and a distributee exchange interests in marital property under sec. 857.03, Wis. Stats.
- Amount required to limit capital loss deduction to \$500
- Difference in federal and Wisconsin gain or loss on sale or other disposition of property due to difference in basis of property acquired from a decedent
- Adjustment due to difference in federal and Wisconsin treatment of a waste treatment plant and pollution abatement equipment
- Adjustment due to difference in basis of residence sold where a prior residence was located outside Wisconsin



# Worksheet 1 — 2005 Wisconsin NOL

1	Wisconsin income from 2005 Form 1, line 13. Estates and trusts, skip lines 1 and 2 .....	1		
2	Allowable federal standard deduction .....	2	( )	
3	Combine lines 1 and 2. Estates and trusts, fill in your Wisconsin taxable income increased by the sum of the charitable deduction and income distribution deduction allowed on your federal tax return .....			3
<b>Note:</b> If line 3 is zero or more, do not complete rest of worksheet. You <b>do not</b> have an NOL				
<b>Adjustments:</b>				
4	Fill in Wisconsin capital gain exclusion. ....			4
5	Estates and trusts, fill in as a positive number the exemption amount from your federal tax return .....			5
6	Total <b>nonbusiness</b> capital losses disregarding capital loss deduction limitation. Fill in as a positive number .....	6		
7	Total <b>nonbusiness</b> capital gains .....	7		
8	If line 6 is more than line 7, fill in difference; otherwise, fill in -0- .....	8		
9	If line 7 is more than line 6, fill in difference; otherwise, fill in -0- .....	9		
10	<b>Nonbusiness</b> deductions. Fill in as a positive number .....	10		
11	<b>Nonbusiness</b> income other than capital gains .....	11		
12	Add lines 9 and 11 .....	12		
13	If line 10 is more than line 12, fill in difference; otherwise, fill in -0- .....			13
14	If line 12 is more than line 10, fill in difference; otherwise, fill in -0-. Do not fill in more than line 9 .....	14		
15	Total <b>business</b> capital losses disregarding capital loss deduction limitation. Fill in as a positive number .....	15		
16	Total <b>business</b> capital gains disregarding capital gain exclusion .....	16		
17	Add lines 14 and 16 .....	17		
18	If line 15 is more than line 17, fill in difference; otherwise, fill in -0- .....	18		
19	Add lines 8 and 18 .....	19		
20	Fill in as a positive number the loss, if any, from line 16 of Schedule WD (line 15, column (b), of Schedule WD (Form 2) for estates and trusts). If you do not have a loss on that line, skip lines 20 through 22 and fill in on line 23 the amount from line 19 .....	20		
21	Fill in as a positive number the loss from line 20 of Schedule WD (line 19 of Schedule WD (Form 2) for estates and trusts) .....	21		
22	Subtract line 21 from line 20 .....	22		
23	Subtract line 22 from line 19. If zero or less, fill in -0- .....			23
24	Net operating loss deduction for losses from other years. Fill in as a positive number .....			24
25	<b>Net operating loss.</b> Combine lines 3, 4, 5, 13, 23 and 24. If the combined amount is less than zero, this is your Wisconsin NOL. If the combined amount is zero or more, you <b>do not</b> have an NOL .....			25

## Instructions for Worksheet 1 — 2005 Wisconsin NOL

**Note:** Worksheet 1 is designed to use when computing your Wisconsin NOL based on your 2005 tax return. The worksheet can also be used to compute a Wisconsin NOL based on returns from 1990-2004 if comparable line references and the federal standard deduction applicable to each year are used.

**Line 1** Fill in your Wisconsin income from 2005 Form 1, line 13. For individuals filing Form 1NPR (nonresident and part-year resident return), Wisconsin income is the amount from line 16, column B, of 2005 Form 1NPR, less the amount on line 31, column B, Form 1NPR.

**Line 2** Fill in your allowable federal standard deduction regardless of whether you claimed the standard deduction on your federal return. Use the federal standard deduction allowable based on your federal filing status. For 2005, this generally is:

- Single — \$5,000.
- Married filing joint return or qualifying widow(er) — \$10,000.
- Married filing separate return — \$5,000.
- Head of household — \$7,300.

In some cases your allowable federal standard deduction may be more or less than the amount indicated above. See the instructions for your federal income tax return to determine your allowable standard deduction if:

- You can be claimed as a dependent on another person's return.
- You (and/or your spouse) are 65 years of age or older or legally blind.
- You are filing a tax return with a short tax year.
- You are a nonresident or dual-status alien during the year.

**Line 4** Fill in your Wisconsin capital gain exclusion as a positive number. This will generally be the amount from line 18 of 2005 Schedule WD (line 17 of Schedule WD (Form 2) for estates and trusts). However, if your only capital gain or loss was a capital gain distribution reported on line 13 of federal Form 1040 and you did not file Wisconsin Schedule WD, fill in the amount of capital gain exclusion from line 10 of Form 1 (for Form 1NPR filers, this is the 60% exclusion claimed when completing line 7, column B).

**Lines 6 through 23** The adjustments computed on these lines are required because:

- Nonbusiness deductions are allowed only to the extent of nonbusiness income.
- Capital losses are allowed only to the extent of capital gains.

To complete these lines, you will have to sort your capital gains and losses and your income and deduction items to determine what portion is "business" and what portion is "nonbusiness."

Nonbusiness income is income that is unrelated to your trade or business or your employment. For example, dividends, pensions and annuities, taxable social security, alimony, and interest on investments are nonbusiness income. Income you receive from your trade or business or employment such as salaries and wages, self-employment income, your share of business income from partnerships and tax-option (S) corporations, rental income, ordinary gain from the sale or disposition of business property, or unemployment compensation is business income.

Nonbusiness deductions are deductions that are unrelated to your trade or business. For example, alimony paid, the Wisconsin deduction for medical care insurance, contributions to an IRA, Keogh, or other retirement plan, and the federal standard deduction are nonbusiness deductions.

**Caution:** Do not include any federal itemized deductions as nonbusiness deductions.

See federal Publication 536, *Net Operating Losses*, or the instructions for federal Form 1045 for further information on items that are considered "business" or "nonbusiness."

The amounts filled in on lines 6 through 23 should be the Wisconsin amounts which reflect the related addition and subtraction modifications from lines 2 through 4 and 6 through 11 of Form 1 (Schedule A of Form 2 for estates and trusts). Individuals who file Form 1NPR should use the amounts from column B of Form 1NPR when completing these lines.

*Example:* When computing your federal NOL, you determine that your total nonbusiness income consisted of \$800 of interest income. You show a subtraction on line 7 of your Form 1 of \$200 for interest from U.S. Government securities. The amount to fill in as nonbusiness income on line 11 of the worksheet is \$600 (\$800 less \$200 U.S. Government interest).

**Line 24** If you claimed a Wisconsin NOL carryforward from other years on line 11 of Form 1 or line 15, column B of Form 1NPR (line 11, Schedule A of Form 2 for estates and trusts), fill in the amount of the NOL carryforward on line 24.

**Line 25** If the amount on line 25 is less than zero, you have a Wisconsin NOL.

## Worksheet 2

### 2005 Wisconsin Modified Taxable Income

1. Wisconsin income .....	1.	
2. NOL deduction.....	2.	
3. Capital gain exclusion.....	3.	
4. Capital loss deduction.....	4.	
5. Add lines 1 through 4.....	5.	
6. Wisconsin standard deduction allowable based on the amount on line 5.....	6.	
7. Subtract line 6 from line 5. If less than zero, fill in -0- .....	7.	
8. Deduction for exemptions.....	8.	
9. Subtract line 8 from line 7. If less than zero, fill in -0-. This is your 2005 Wisconsin modified taxable income .....	9.	

### Instructions for Worksheet 2 — 2005 Wisconsin Modified Taxable Income

**Note:** These instructions refer to the 2005 Wisconsin return. The worksheet can be used for 1991-2004 by using comparable lines and the appropriate Wisconsin standard deduction for each year. The deduction for exemptions does not apply to taxable years beginning before January 1, 2000.

**Line 1** Fill in your Wisconsin income from 2005 Form 1, line 13. For individuals filing Form 1NPR, Wisconsin income is the amount from line 16, column B, of 2005 Form 1NPR less the amount on line 31, column B. Estates and trusts fill in the amount from line 5 of Form 2.

**Line 2** Fill in as a positive number the amount of NOL carry-forward deducted on your 2005 Wisconsin return.

**Line 3** Fill in your Wisconsin capital gain exclusion as a positive number. This will generally be the amount from line 18 of 2005 Schedule WD (line 17 of Schedule WD (Form 2) for estates and trusts).

However, if your only capital gain or loss was a capital gain distribution reported on line 13 of federal Form 1040 and you did not file Wisconsin Schedule WD, fill in the amount of capital gain exclusion from line 10 of Form 1 (for Form 1NPR filers, this is the 60% exclusion claimed when completing line 7, column B).

**Line 4** Fill in your Wisconsin capital loss deduction as a positive number. This is the amount from line 20 of your 2005 Schedule WD (line 19 of Schedule WD (Form 2) for estates and trusts).

**Line 6** Fill in your Wisconsin standard deduction based on the amount on line 5 for your filing status. Full-year residents use the standard deduction table on page 30 of your 2005 Form 1 booklet. If you are filing Form 1NPR, use the following formula to determine the standard deduction to fill in on line 6.

**Exception:** If your federal income from line 33, column A of 2005 Form 1NPR is less than the amount on line 5 of Worksheet 2, do not use the following formula. The standard deduction to fill in on line 6 of Worksheet 2 is the amount from line 36c of your 2005 Form 1NPR.

$$\begin{array}{rcl} \text{Amount from line 5} & & \\ \text{of Worksheet 2} & & \\ \text{Federal income from} & \times & \text{Standard deduction} \\ \text{line 33 of 2005} & & \text{from line 36c of} \\ \text{Form 1NPR} & & \text{2005 Form 1NPR} \\ & & = \text{Standard} \\ & & \text{deduction to} \\ & & \text{fill in on} \\ & & \text{line 6} \end{array}$$

Estates and trusts fill in -0- on line 6.

**Line 8** Fill in your deduction for exemptions. For full-year Wisconsin residents, this is the amount from line 17a of Form 1. If you are filing Form 1NPR, use the following formula to determine your deductions for exemptions.

**Exception:** If your federal income from line 33, column A of 2005 Form 1NPR is less than the amount on line 5 of Worksheet 2, do not use the following formula. The deduction for exemptions amount to fill in on line 8 of Worksheet 2 is the amount from line 38a of your 2005 Form 1NPR.

$$\begin{array}{rcl} \text{Amount from line 5} & & \\ \text{of Worksheet 2} & & \\ \text{Federal income from} & \times & \text{Deduction} \\ \text{line 33 of 2005} & & \text{for exemptions} \\ \text{Form 1NPR} & & \text{from line 38a of} \\ & & \text{2005 Form 1NPR} \\ & & = \text{Deduction} \\ & & \text{for} \\ & & \text{exemptions} \\ & & \text{to fill in} \\ & & \text{on line 8} \end{array}$$

Estates and trusts fill in -0- on line 8.

**Line 9** This is your 2005 Wisconsin modified taxable income.

### Worksheet 3 — Record of Wisconsin NOL Carryforward of Losses

NOL Loss Year	_____	_____	_____	_____	_____
Wisconsin NOL.....	\$	\$	\$	\$	\$
Loss used — 1st year .....	-	-	-	-	-
Carryforward to 2nd year .....	\$	\$	\$	\$	\$
Loss used — 2nd year .....	-	-	-	-	-
Carryforward to 3rd year.....	\$	\$	\$	\$	\$
Loss used — 3rd year.....	-	-	-	-	-
Carryforward to 4th year.....	\$	\$	\$	\$	\$
Loss used — 4th year.....	-	-	-	-	-
Carryforward to 5th year.....	\$	\$	\$	\$	\$
Loss used — 5th year.....	-	-	-	-	-
Carryforward to 6th year.....	\$	\$	\$	\$	\$
Loss used — 6th year.....	-	-	-	-	-
Carryforward to 7th year.....	\$	\$	\$	\$	\$
Loss used — 7th year.....	-	-	-	-	-
Carryforward to 8th year.....	\$	\$	\$	\$	\$
Loss used — 8th year.....	-	-	-	-	-
Carryforward to 9th year.....	\$	\$	\$	\$	\$
Loss used — 9th year.....	-	-	-	-	-
Carryforward to 10th year.....	\$	\$	\$	\$	\$
Loss used — 10th year.....	-	-	-	-	-
Carryforward to 11th year.....	\$	\$	\$	\$	\$
Loss used — 11th year.....	-	-	-	-	-
Carryforward to 12th year.....	\$	\$	\$	\$	\$
Loss used — 12th year.....	-	-	-	-	-
Carryforward to 13th year.....	\$	\$	\$	\$	\$
Loss used — 13th year.....	-	-	-	-	-
Carryforward to 14th year.....	\$	\$	\$	\$	\$
Loss used — 14th year.....	-	-	-	-	-
Carryforward to 15th year.....	\$	\$	\$	\$	\$
Loss used — 15th year.....	-	-	-	-	-
Unused loss (No carryforward allowed) .....	\$	\$	\$	\$	\$

### **Instructions for Worksheet 3 — Record of Wisconsin NOL Carryforward of Losses**

Worksheet 3 allows you to record the amount of Wisconsin NOL used each year and the carryforward available.

Fill in the Wisconsin NOL loss year. For each loss year, fill in that column, working from the top of the column down. Use a separate column for each loss year.

Fill in as a positive number the amount of your Wisconsin NOL for each loss year.

Next fill in as a positive number the amount of NOL used in the first carryover year. The amount used each year is equal to your Wisconsin modified taxable income (see Worksheet 2 on page 9).

Subtract the loss used from the Wisconsin NOL. The result is the carryforward to the next year. For each succeeding year, continue to subtract the loss used from the carryforward until the loss is completely used or the loss can no longer be carried forward.

**Caution:** If no amount of a Wisconsin NOL carryforward is used in any year, fill in -0- as loss used for that year. You have not used a Wisconsin NOL carryforward if your modified taxable income (as computed on Worksheet 2) is zero.

If you determine you have a Wisconsin NOL carryforward to 2005, the amount of the carryforward should be entered on line 8 of Worksheet 4 when determining your 2005 allowable deduction for a Wisconsin NOL carryforward.

If you have a Wisconsin NOL carryforward from more than one loss year which can be applied to 2005, add all of your Wisconsin NOL carryforwards to 2005 together. Fill in the total on line 8 of Worksheet 4 when computing your 2005 allowable deduction for a Wisconsin NOL.

## Worksheet 4 — Allowable Deduction for a Wisconsin NOL Carryforward

- |  |    |  |
|--|----|--|
| 1. Amount from line 5 of 2005 Wisconsin Form 1.....  | 1. |  |
| 2. Subtractions from income from line 12 of Form 1. (Do not include any amount for the NOL carryforward.).....   | 2. |  |
| 3. Wisconsin income before NOL. (Subtract line 2 from line 1.).....  | 3. |  |
| 4. Standard deduction. (Compute the standard deduction on the income amount on line 3 using the 2005 Standard Deduction Table on page 30 in the 2005 Form 1 booklet and the column which corresponds to your filing status.) ..... | 4. |  |
| 5. Subtract line 4 from line 3. If less than zero, fill in -0- .....   | 5. |  |
| 6. Deduction for exemptions (see instructions).....  | 6. |  |
| 7. Maximum deduction for NOL. (Subtract line 6 from line 5) .....  | 7. |  |
| 8. Your Wisconsin NOL carryforward.....  | 8. |  |
| 9. Fill in the lesser of line 7 or line 8. This is your allowable Wisconsin NOL deduction. ....  | 9. |  |

### Instructions for Worksheet 4 — Allowable Deduction for a Wisconsin NOL Carryforward

**Line 1** If you are filing Form 1NPR, do not fill in any amount on this line. Instead, see the instructions for line 3. Estates and trusts fill in the amount from line 3 of 2005 Wisconsin Form 2.

**Line 2** If you are filing Form 1NPR, do not fill in any amount on this line (see line 3 instructions). Estates and trusts fill in the amount from line 12, column 2 of Schedule A (Form 2). Do not include any amount of NOL in this figure.

**Line 3** If you are filing Form 1NPR, fill in on line 3 the amount from line 16, column B of Form 1NPR (without any amount for the NOL), less the amount on line 31, column B, Form 1NPR.

**Line 4** If you are filing Form 1NPR, use the following formula to compute the standard deduction to fill in on line 4.

**Exception:** If your federal income from line 33, column A of 2005 Form 1NPR is less than the amount on line 3 of Worksheet 4, do not use the following formula. The standard deduction to fill in on line 4 of Worksheet 4 is the standard deduction from the table in the Form 1NPR booklet based on your filing status and federal income.

Amount from line 3 of Worksheet 4	x	Standard deduction from table on page 34 in Form 1NPR booklet based on your filing status and federal income	=	Amount to fill in on line 4
Federal income from line 33 of Form 1NPR				

Estates and trusts do not fill in any amount on line 4.

**Line 6** If you are filing Form 1, you will first have to complete line 17a of Form 1 before you can complete Worksheet 4. Fill in the amount from line 17a of Form 1 on line 6 of Worksheet 4.

If you are filing Form 1NPR, you will first have to complete line 38a of Form 1NPR. Then use the following formula to determine the amount to fill in on line 6 of Worksheet 4.

**Exception:** If your federal adjusted gross income from line 33, column A of 2005 Form 1NPR is less than the amount on line 3 of Worksheet 4, do not use the following formula. Fill in the amount from line 38a of Form 1NPR on line 6 of Worksheet 4.

Amount from line 3 of Worksheet 4	x	Deduction for exemptions from line 38a of 2005 Form 1NPR	=	Amount to fill in on line 6 of Worksheet 4
Federal adjusted gross income from line 33, column A of Form 1NPR				

*Estates and trusts* do not fill in any amount on line 6.

**Line 9** If you are filing Form 1, fill in the amount from line 9 of Worksheet 4 on line 11 of Form 1 as a positive number. If you are filing Form 1NPR, fill in the amount from line 9 of Worksheet 4 on line 15, column B of Form 1NPR as a negative number. Estates and trusts fill in the amount from line 9 of Worksheet 4 on line 11, column 2, of Schedule A of Form 2 as a positive number.

## Illustrated Worksheet 1

The following example illustrates how to compute a Wisconsin NOL.

*Example:* In 2005, James Johnson started a retail business. He is single and claims a federal standard deduction of \$5,000. His 2005 federal adjusted gross income is as follows:

Wages	\$ 1,225
Interest on savings	425
Net long-term capital gain on sale of real estate used in business	1,900
Net short-term capital loss on sale of stock	(1,000)
Net loss from business	(5,000)
Ordinary loss on small business stock	<u>( 800)</u>
Federal Adjusted Gross Income	\$(3,250)

Mr. Johnson's Wisconsin income is as follows:

Federal adjusted gross income	\$(3,250)
Capital gain exclusion (\$900 x 60%)	(540)
U.S. government interest	(200)
State and municipal bond interest	<u>600</u>
Wisconsin income	\$(3,390)

Mr. Johnson's 2005 Wisconsin NOL is \$2,675. The computation is shown on the filled-in Worksheet 1 on page 14.

## Worksheet 1 — 2005 Wisconsin NOL

1	Wisconsin income from 2005 Form 1, line 13. Estates and trusts, skip lines 1 and 2.....	1	(3,390)		
2	Allowable federal standard deduction.....	2	(5,000)		
3	Combine lines 1 and 2. Estates and trusts, fill in your Wisconsin taxable income increased by the sum of the charitable deduction and income distribution deduction allowed on your federal tax return .....			3	(8,390)
<b>Note:</b> If line 3 is zero or more, do not complete rest of worksheet. You <b>do not</b> have an NOL					
<b>Adjustments:</b>					
4	Fill in Wisconsin capital gain exclusion.....			4	540
5	Estates and trusts, fill in as a positive number the exemption amount from your federal tax return.....			5	
6	Total <b>nonbusiness</b> capital losses disregarding capital loss deduction limitation. Fill in as a positive number .....	6	1,000		
7	Total <b>nonbusiness</b> capital gains .....	7	- 0 -		
8	If line 6 is more than line 7, fill in difference; otherwise, fill in -0-.....	8	1,000		
9	If line 7 is more than line 6, fill in difference; otherwise, fill in -0- .....	9	- 0 -		
10	<b>Nonbusiness</b> deductions. Fill in as a positive number.....	10	5,000		
11	<b>Nonbusiness</b> income other than capital gains .....	11	825		
12	Add lines 9 and 11.....	12	825		
13	If line 10 is more than line 12, fill in difference; otherwise, fill in -0- .....			13	4,175
14	If line 12 is more than line 10, fill in difference; otherwise, fill in -0-. Do not fill in more than line 9.....	14	- 0 -		
15	Total <b>business</b> capital losses disregarding capital loss deduction limitation. Fill in as a positive number .....	15	- 0 -		
16	Total <b>business</b> capital gains disregarding capital gain exclusion.....	16	1,900		
17	Add lines 14 and 16 .....	17	1,900		
18	If line 15 is more than line 17, fill in difference; otherwise, fill in -0- .....	18	- 0 -		
19	Add lines 8 and 18 .....	19	1,000		
20	Fill in as a positive number the loss, if any, from line 16 of Schedule WD (line 15, column (b), of Schedule WD (Form 2) for estates and trusts). If you do not have a loss on that line, skip lines 20 through 22 and fill in on line 23 the amount from line 19.....	20	- 0 -		
21	Fill in as a positive number the loss from line 20 of Schedule WD (line 19 of Schedule WD (Form 2) for estates and trusts) .....	21	- 0 -		
22	Subtract line 21 from line 20 .....	22	- 0 -		
23	Subtract line 22 from line 19. If zero or less, fill in -0-.....			23	1,000
24	Net operating loss deduction for losses from other years. Fill in as a positive number .....			24	- 0 -
25	<b>Net operating loss.</b> Combine lines 3, 4, 5, 13, 23 and 24. If the combined amount is less than zero, this is your Wisconsin NOL. If the combined amount is zero or more, you <b>do not</b> have an NOL .....			25	(2,675)